Illinois Outlook Revised To Developing From Negative On Pension Consensus; Series 2013 GO Debt Rated 'A-'

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(**Editor's Note**: In the media release published earlier today, the outlook on the series 2013 general obligation bonds was incorrect. A corrected version follows.)

NEW YORK (Standard & Poor's) Dec. 10, 2013--Standard & Poor's Ratings Services revised its outlook on Illinois to developing from negative. In addition, we affirmed our 'A-' rating on the state's general obligation (GO) bonds outstanding. A developing outlook indicates that we could raise or lower the rating during the two-year outlook horizon.

"The change reflects the consensus reached on pension reform, which we believe could contribute to a sustainable path to fiscal stability," said Standard & Poor's credit analyst Robin Prunty. "Although we view the consensus achieved by Illinois on this difficult issue as positive from a credit standpoint, the developing outlook reflects the implementation risk -- legal and budgetary -- associated with various provisions of the pension reform, as well as the overall structural budget challenges facing the state," added Ms. Prunty.

At the same time, Standard & Poor's assigned its 'A-' rating and developing outlook to Illinois' GO bonds, series of December 2013.

In addition to normal budget pressures facing the state, the statutory reduction of current personal and corporate income tax rates on Jan. 1, 2015, highlights a difficult budget climate over the next two years. If pension reform moves forward and the state takes credible action to achieve structural budget balance beginning in fiscal 2015, we believe a higher rating would be warranted. Conversely, if the pension reform is declared unconstitutional or invalid, or implementation is delayed and there is a lack of consensus and action among policy makers on the structural budget gaps and outstanding payables, we believe there could be a profound and negative effect on the state's budgetary performance and liquidity over the two-year outlook horizon. While a developing outlook is unusual for a state, it reflects the magnitude and scope of pension and budgetary issues facing Illinois.

RELATED CRITERIA AND RESEARCH

Related Criteria
- USPF Criteria: State Ratings Methodology, Jan. 3, 2011
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research
- U.S. State And Local Government Credit Conditions Forecast, Oct. 1, 2013